# NOVA SCOTIA FISHERIES AND AQUACULTURE LOAN BOARD

## ANNUAL ACCOUNTABILITY REPORT

## FISCAL YEAR 2014-2015

**NOVA SCOTIA FISHERIES AND AQUACULTURE LOAN BOARD**

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**FISCAL YEAR 2014-15**

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**ACCOUNTABILITY STATEMENT**

We have the honour of presenting the Annual Report of Nova Scotia Fisheries and Aquaculture Loan Board for the fiscal year ending March 31, 2015.

This report incorporates accountability reporting of the Nova Scotia Fisheries and Aquaculture Loan Board for the year ended March 31, 2015 and is prepared pursuant to Section 41 of the *Fisheries and Coastal Resources Act, 1996*, as well as the *Provincial Finance Act* and government policies and guidelines. These authorities require the reporting of outcomes against the Nova Scotia Fisheries and Aquaculture Loan Board Business Plan information for the fiscal year 2014-2015. The reporting of the Nova Scotia Fisheries and Aquaculture Loan Board outcomes includes estimates, judgements and opinions by Loan Board management.

The Department of Fisheries and Aquaculture acknowledges that this accountability report is the responsibility of the Nova Scotia Fisheries and Aquaculture Loan Board. The report is, to the best extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Nova Scotia Fisheries and Aquaculture Loan Board 2014-2015 Business Plan.

**Honourable Keith Colwell, E.C.N.S.**

Minister, Department of Fisheries and Aquaculture

**Peter Corey**

Acting Chair of the Board

**Derrick Brooks**

Chief Executive Officer

**BOARD MEMBERS as at March 31, 2015**

| | |
|---|---|
| Mr. Jerry Amirault | Member, Audit Committee Chair |
| Mr. Edmond Aucoin | Member, Board |
| Mr. Peter Burnie | Member, Board and Audit Committee |
| Mr. Peter Corey | Member, Vice-Chair, Acting Chair, Board |
| Mr. Denny Morrow | Member, Board |
| Mr. Claude Poirier | Member, Board |
| Ms. Patricia Rhynold | Member, Board |

**PRINCIPAL OFFICERS AND STAFF as at March 31, 2015**

| | |
|---|---|
| Derrick Brooks | Chief Executive Officer |
| William Laurence, Department of Justice | Solicitor to Board |
| PricewaterhouseCoopers LLP | Auditor |
| Greg Cox | Risk Manager |
| Maria McCurdy | Loans Manager |
| Neil Pardy | Senior Loans Officer |
| Glenda Conley | Loans Officer |
| Colleen Frizzell | Loans Officer |
| Jennifer Armitage | Loans Administrator |
| Jacqueline Dalrymple | Secretary |
| Vernon Shea | Vessel Inspector |
| Bernie Stockley | Vessel Inspector |
| Vicki Dimick, Department of Finance | Director of Finance and Accounting |
| Christine Dib-Kahil, Department of Finance | Financial Services Officer |

## CHIEF EXECUTIVE OFFICER'S REPORT

It is an extremely exciting time to have the distinct honour of serving as Chief Executive Officer of Nova Scotia Fisheries and Aquaculture Loan Board. The spotlight is clearly shining on these vital and venerable sectors of our rural and provincial communities. The *Report of the Nova Scotia Commission on Building Our New Economy* cites 'renewing rural industries,' such as the fisheries and aquaculture industries, as a 'game changer' in the development of the new economy. Nova Scotia Fisheries and Aquaculture Loan Board is keenly engaged in this conversation and well-positioned to contribute in an appropriate and meaningful to the necessary renewal and change.

We are proud to be the only financial institution in the province that serves these sectors, exclusively. As such, we maintain an in-depth understanding of the business climate in which fisheries and aquaculture businesses operate and we use this unique understanding to support the realization of these industries' growth and development potential, one customer at a time.

Nova Scotia Fisheries and Aquaculture Loan Board's commitment to these industries, and our customers, has been demonstrated time and time again, in both prosperous and challenging times – and we will remain committed to enhancing rural Nova Scotia by providing specialized business and financial products and services adapted to the unique needs of the province's fishers and aquaculture industries, including the next generation of fishers and aquaculturists.

We believe the fisheries and aquaculture industries in this province are on the cusp of radical, positive change that will propel them to new heights, forever cementing their reputations - as innovative, industries working together to effectively and efficiently produce and market products of the highest quality, both at home and abroad – not only in the minds of Nova Scotians but of the world. This reputation will continue to make them an employer of choice to future generations of entrepreneurs and workforces.

As noted in the *Report of the Nova Scotia Commission on Building Our New Economy*, these industries are not only players in the province's economies and communities, they will be the catalyst for positive change. As such, the need for an enduring, committed and stable financial partner has never been more apparent - Nova Scotia Fisheries and Aquaculture Loan Board will continue to work to ensure these needs are met.

Nova Scotia Fisheries and Aquaculture Loan Board is very proud to work with and serve the fishers and aquaculturists of this province. These industries are near and dear to all of us here at the 'Loan Board' and we understand the important role they play in our province's economy and in making Nova Scotia home – *Our Home* - the home we all know and love.

The province's fishers and aquaculturists are the boats on this province's coasts. We have provided financial support to past generations of fishers and aquaculturists, and we want to ensure these industries have the financial support required to ensure that the boats on this province's coasts continue to occupy the vast landscapes of our minds' eyes for generations to come.

Derrick Brooks
Chief Executive Officer
Nova Scotia Fisheries and Aquaculture Loan Board

**BOARD OPERATION OVERVIEW**

**During its 78th year of operation the Board of Directors met on eight occasions. One hundred and eighteen requests were approved for funding during the 2014-2015 fiscal year. A total of 834 active loans were in effect at March 31, 2015.**

**Interest rates at year-end were 5.89%.**

118 loan applications were approved during the year with total funds advanced of $22.3 million. Principal repayments were $19.1 million with an additional $1.121 million of principal written off. Interest rates continued to be low and credit availability from other lenders remained strong. Loan advances were below the maximum $25 million authorized. Long term lending needs appear to have been met and the Loans for Licenses program implemented in 2009 continues to be of significant interest and benefit.

Fishing Vessel Loans

The Board provides loans for the purchase of new and used fishing vessels as well as for vessel modifications and upgrades. A total of sixty-two fishing vessel loans totaling $15,195,434 were approved under this program in 2014-2015. At year-end vessel loans accounted for 58% of the Board's impaired loans ($4,403,459).

While lending and credit staff are responsible for administrative detail with respect to receiving applications, preparing applications, disbursing funds and maintaining loans records, the Board's vessel inspectors are responsible for ensuring adequate vessel appraisals are conducted and documented.

Fishing License Loans

The Board provides loans for the purchase of fishing licenses which support succession and diversification within the fish harvesting sector. A total of fifty-two fishing license loans totaling $13,667,404 were approved under this program in 2014-2015. At year-end fishing license loans accounted for 39% of the Board's impaired loans ($2,948,940).

Aquaculture Loans

The Board provides loans to aquaculture operators for the purchase of seedstock, gear and equipment. A total of sixteen aquaculture loans totaling $1,321,762 were approved under this program in 2014-2015. At year-end aquaculture loans currently accounted for 3% of the Board's impaired loans ($264,600).

**Notes:**

**Write offs**

Board staff work with and guide borrowers experiencing economic hardship in an effort to facilitate recovery and minimize potential losses. Every possible recovery effort is made prior to submitting any request to write-off unrecoverable loan balances. The increase in write-offs in 2014-2015 was attributable to a total of five (5) accounts which had experienced significant, past financial and other hardships. In three (3) of these five (5), the Board also implemented legal measures which have the potential to result in further recovery against these in the future.

**Actual/Budget Comparison – Loan Operating**

| Description | 2014-2015 Actual ($000) | 2014-2015 Budget ($000) | Change |
|---|---|---|---|
| Interest revenue | 8,261 | 7,800 | 563 |
| Loan processing and other fees | 210 | 150 | 60 |
| Total revenue | 8,471 | 7,950 | 623 |
| Interest expense | 4,458 | 4,600 | (142) |
| Bad debt expense | 2,300 | 0 | 2300 |
| Operating expenses | 865 | 840 | 25 |
| Total expenses | 7,623 | 5,440 | 2,183 |
| Income before distribution to the General Revenue Fund of the Province | 848 | 2,510 | (1,560) |
| Distribution to the General Revenue Fund of the Province | (848) | (2,510) | 1560 |
| Net Income | 0 | 0 | 0 |

**Notes:**

**Net Income**

The Board's net income in 2014-2015 was $950,000, a decrease of $765,000 (-45%) over 2013-2014. Excluding the $2.3 million bad debt expense in 2014-15 (nil in 2013-14), net income was $3.25 million, an increase of $1.535 million (90%) over 2013-14. This demonstrates the Board's ability to enhance efficiencies and effectiveness while incorporating more stringent risk assessment and management protocols.

**Bad Debt**

Each year, in preparation for year end, the Board's impaired accounts are reviewed in detail and the security values on all impaired accounts (2 years or more behind) are updated. The 2014-2015 analysis revealed that an additional $2.3 million (attributable to requirements for 6 accounts) was required to ensure the provision for bad debt is sufficient. This is consistent with recent years as $2.078 million was required in 2012-2013. Staff continue to work with clients with impaired accounts in an effort to minimize potential losses and exhaust every possible recovery effort prior to submitting any request to write-off unrecoverable loan balances. In addition, the Board hired a Risk Manager in 2012-2013 to ensure appropriate risk evaluation and management is occurring for all loans issued by the Board. Since that time, every loan request received by the Board is evaluated and assigned a risk rating and measures are taken to mitigate the risk when a loan offer is extended to a client.

**Measuring Our Performance**

The following sections outline results achieved in 2014-2015 related to performance measures identified in the Board's Business Plan for the same period.

**Strategic Goals and Priorities for 2014-2015**

1. **Growth in the rural economy, specifically in coastal communities** by providing flexible loan products adapted to the needs of the fisheries and aquaculture industry.

2. **Increase the number and success of participants in the fisheries and aquaculture sectors** by providing lending support at the development and entry level for fisheries and aquaculture businesses.

3. **Sound loan performance** as measured by the ability of clients to meet their debt obligations. This is considered a positive indication of business and investment strength. As a result, arrears as a percentage of the value of all accounts, provides a reasonable proxy measure of client business health and is also indicative of the effectiveness of the Board's policies and procedures for recognizing and assisting clients in financial difficulty.

**Performance Measures Background**

While, at first glance, there may appear to be more direct measures which reflect the impact of the board's programs and services, it is important to recognize that the board's access to much of the data required to generate such information is limited, for a variety of reasons. As such, the below-noted measures are considered to be reasonable proxies for the noted outcomes given information the board can currently and cost-effectively access. While each individual measure provides information about the board's impact, the most representative picture of its impact is painted when these proxy measures are examined, in whole or in combination. This impact is further examined in the 'Interpretation of Performance Measures' section below.

The board is committed to examining opportunities to continuously improve its performance measures and will add and/or revise current measures as access and availability to information changes. In 2014-2015, the Board enhanced performance measures and established targets specifically related to its goal to **'Increase the number and success of participants in the fisheries and aquaculture sectors'** to better assess and monitor its impact in this important area.

**MEASURES FOR 2014-2015**

***i) New loan advances and approvals***

***Target:*** Increase annual advances and approvals. The amount of loans advanced in 2014-15 was $22,337,973 million, an increase of $6,409,539 (40%) from 2013-2014 advances of $15,928,434 million.

***ii) Change in loan portfolio***

***Target:*** Annual increase in loan portfolio. The Board's loan portfolio was $111,531,373 at March 31, 2015. This represented an increase of $1,418,146 (1.3%) from $110,113,227 for the year ended March 31, 2014.

***iii)*** **Average age of loan applicants** (new measure in 2014-2015)

***Target:*** Maintain below 45. The average age of applicants in 2014-2015 was 42 years of age.

***iv)*** **Percentage of loan applicants aged 19-35** (new measure in 2014-2015)

***Target:*** Increase percentage of applications for this cohort annually. In 2014-2015, 34% of applications received were from the 19-35 age cohort.

***v)*** **Percentage of applicants applying as new entrants or new species** (new measure in 2014-2015)

***Target:*** Increase the number of new entrants who successfully qualify for loan board financing. In 2014-2015, approximately 48% of applicants applied to one of these loan categories.

***vi)*** **Sound loan performance**

**Target:** Maintain the total percentage of principal in arrears below 5%. At March 31, 2015, this measure decreased to 2.67% from 4.12% on March 31, 2014. This represents significant progress in this area. The amount of principal in arrears decreased from $4,535,649 million at March 31, 2014 to $2,976,257 million at March 31, 2015.

**ADDITIONAL INDICATORS OF BOARD PERFORMANCE**

***Net Income*** measures the Board's efficiency and effectiveness in delivering developmental credit.

***Target:*** Maintain a significant positive net income, while implementing heightened assessment of risk to the Board's investments. The Board's net income in 2014-2015 was $950,000, a decrease of $765,000 (-45%) over 2013-2014. Excluding the $2.3 million bad debt expense in 2014-15 (nil in 2013-14), net income was $3.25 million, an increase of $1.535 million (90%) over 2013-14. This demonstrates the Board's ability to enhance efficiencies and effectiveness while incorporating more stringent risk assessment and management protocols.

**Interpretation of Performance Measures**

There are strong indications that the industry has weathered and is rebounding from the recent economic downturn. The demonstrated, increasing trend in 'loan advances' and 'changes in loan portfolio' in recent years is considered a strong, positive indication of strengthened industry health and stability and, in turn, strong, positive impacts in the province's rural economy. Furthermore, the impacts of the board's programs and services in the rural economies of the province are even more apparent when you consider the positive outlook demonstrated by increasing trends in 'loan advances' and in the board's portfolio hand-in-hand with such other factors as low levels of default as represented by the 'percentage of accounts in arrears' measure. These measures together, indicate that, not only are businesses borrowing money (money which is primarily invested in the province's rural economies), but the vast majority of these businesses are also financially fit - as demonstrated by the low levels of default measured as percent of accounts in arrears. Therefore, it is reasonable to conclude that the financial health and stability of the borrowers is solid and as such the increase in investments as demonstrated by recent increases in the board's loan advances and portfolio are ultimately resulting in a long term, net positive impact.

Taken together with other chosen measures, the board's positive impact on industry growth and development is even more apparent when you consider that recent statistics show that approximately 34% of applicants (in 2014-2015) were aged 35 or under. This is a strong indication that significant investment in these sectors will continue well into the future. This is also considered a significant and strong proxy measure of industry health and prosperity.